

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mackinac Island Public School	County Mackinac
Audit Date 6/30/05	Opinion Date 8/16/05	Date Accountant Report Submitted to State: 11/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132])
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year)
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95)

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations	✓		
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 902 S. Huron Street, PO Box 250		City Cheboygan	State MI
		ZIP 49721	
Accountant Signature <i>Annette Eustice, CPA, CGFM</i>			Date 11/14/05

MACKINAC ISLAND PUBLIC SCHOOL

MACKINAC ISLAND, MICHIGAN



FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

MACKINAC ISLAND PUBLIC SCHOOL

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INDEPENDENT AUDITORS' REPORT

August 16, 2005

Board of Education
Mackinac Island Public School
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Mackinac Island Public School*** (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I-VII is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *Mackinac Island Public School* (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,086,152 (*net assets*). The District's debt obligations exceeded the net capital assets in the amount of \$51,107, resulting in unrestricted net assets of \$1,137,259, which may be used to meet the District's ongoing obligations.
- The District's total net assets increased by \$232,442.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,181,948, an increase of \$212,560 in comparison with the prior year. Approximately 91%, or \$1,070,000, is *available for spending* at the District's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,067,573 or 95% percent of total General Fund expenditures (excluding transfers out).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District-wide financial statements present functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, payments to other public schools, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2005.

The government-wide financial statements can be found on pages 3-4 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 5-9 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 10-11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-26 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund statements and schedules can be found on pages 27-36 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded its liabilities by \$1,086,152 at the close of the fiscal 2005.

The District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Mackinac Island Public School Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current assets	\$ 1,235,920	\$ 1,026,693
Capital assets, net of accumulated depreciation	<u>2,203,893</u>	<u>2,261,459</u>
Total assets	<u>3,439,813</u>	<u>3,288,152</u>
Liabilities		
Current liabilities	70,442	74,442
Long-term liabilities	<u>2,283,219</u>	<u>2,360,000</u>
Total liabilities	<u>2,353,661</u>	<u>2,434,442</u>
Net assets		
Invested in capital assets, net of related debt	(51,107)	(115,678)
Unrestricted	<u>1,137,259</u>	<u>969,388</u>
Total net assets	<u>\$ 1,086,152</u>	<u>\$ 853,710</u>

The District's net assets increased by \$232,442 during the current fiscal year. Most of this increase is due to increased revenues from the State of Michigan (in particular, Section 22d "Saving Paradise" money) and property taxes, as well as a decrease in projected expenditures which occurred when we did not replace a special education teacher.

**Mackinac Island Public School
Changes in Net Assets**

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 18,854	\$ 29,571
Operating grants and contributions	136,769	37,567
General revenues		
Property taxes	1,267,441	1,191,599
State school aid	128,967	29,530
Unrestricted investment earnings	<u>31,260</u>	<u>18,649</u>
Total revenues	<u>1,583,291</u>	<u>1,306,916</u>
Expenses		
Instruction	721,741	725,701
Support services	416,496	368,889
Payments to other public schools	12,742	-
Food services	33,685	40,469
Athletics	13,803	22,635
Interest on long-term debt	98,153	102,487
Depreciation – unallocated	<u>54,229</u>	<u>55,628</u>
Total expenses	<u>1,350,849</u>	<u>1,315,809</u>
Change in net assets	232,442	(8,893)
Net assets, beginning of year (as restated in 2004)	<u>853,710</u>	<u>862,603</u>
Net assets, end of year	<u>\$ 1,086,152</u>	<u>\$ 853,710</u>

Of the District's total revenues available to operate the District, approximately 1% or \$19,000 came from fees charged to those who benefited from the programs. Approximately 7% or \$137,000 came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

Local property taxes, in the amount of approximately \$1.3 million, mainly supported the remaining portion of the governmental activities. The property tax revenue represents 7.4 mills on all non-homestead property. The unrestricted state aid accounted for approximately 8% or \$129,000 of the revenue available. This revenue is determined by a formula that incorporates pupil head count, the annual per pupil allowance and the non-homestead property taxable value of the District.

Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$722,000 or 53% of total expenses. Support services amounted to approximately \$416,000 or 31% of total expenses, which includes such items as administration, transportation, maintenance and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of \$232,000 or approximately 27%. As previously indicated, this change was primarily due to increased revenues from the State of Michigan and property taxes as well as a decrease in projected expenditures. This increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,181,948, an increase of \$212,560 in comparison with the prior year. Approximately 91% of this total amount (\$1,070,000) constitutes *unreserved fund balance*, which is available for spending at the District's discretion. Of the reserved fund balance, approximately \$63,000 is reserved for debt service and approximately \$50,000 is reserved for future capital projects.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,067,573, while total fund balance was \$1,117,157. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 95% and 100%, respectively of total General Fund expenditures (excluding transfers out).

The fund balance of the District's General Fund increased by \$212,117 during the current fiscal year. This increase is primarily attributable to the same factors that increased net assets, which were described above.

General Fund Budgetary Highlights

As additional information became known during the fiscal year, budget amendments were made as deemed necessary. The following were differences between the original and final amended budgets (all numbers are approximate):

- State sources, original budget \$30,000, amended budget \$114,000; attributable to increased revenues from the State of Michigan.
- Payments to other public schools, original budget \$0, amended budget \$22,000; attributable to payments for operation of the interactive TV system that had previously been budgeted in the secondary education area of instruction.

The following were the difference between the final amended budget and actual results (all numbers are approximate):

- State sources, final budget \$114,000, actual results \$127,000; attributable to increased revenues from the State of Michigan (in particular, Section 22d “Saving Paradise” money).
- Federal sources, final budget \$47,500, actual results \$128,400; attributable to the fact that we had budgeted for certain funds received from the Eastern Upper Peninsula Intermediate School District and the 21st Century Grant Program in a state sources budget category.
- Payments to other public schools, final budget \$22,000, actual results \$12,800; attributable to payments for the operation of an interactive TV system which were not as extensive as originally anticipated.

Capital Asset and Debt Administration

Capital assets. The District’s investment in capital assets for its governmental activities as of June 30, 2005, amounted to \$2,203,893 (net of accumulated depreciation). This investment in capital assets includes buildings and furniture and equipment. The land on which the school is built is owned by the Mackinac Island Parks Commission.

Mackinac Island Public School Capital Assets (net of depreciation)

	<u>2005</u>	<u>2004</u>
Buildings and improvements	\$ 2,167,048	\$ 2,221,277
Furniture and equipment	<u>36,845</u>	<u>40,182</u>
Net capital assets	<u>\$ 2,203,893</u>	<u>\$ 2,261,459</u>

Additional information on the District’s capital assets can be found in Note III C on page 19 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$2,255,000. The District’s total debt decreased by \$76,781 (3.3%) during the current fiscal year. Additional information on the District’s long-term debt can be found in Note III F on page 21 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2005-2006 fiscal year:

- Anticipated increase in the retirement rate.
- Expected increase in water and sewer rates.
- Wage and health insurance increases.
- The hiring of a special education teacher to replace one lost after the 2003-04 school year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, Mackinac Island Public School, Mackinac Island, MI.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF NET ASSETS GOVERNMENTAL ACTIVITIES

JUNE 30, 2005

ASSETS	
Cash and cash equivalents	\$ 1,205,168
Receivables	30,752
Capital assets, net	<u>2,203,893</u>
Total assets	<u>3,439,813</u>
 LIABILITIES	
Payables	65,217
Deferred revenue	5,225
Long-term liabilities	
Due within one year	117,055
Due in more than one year	<u>2,166,164</u>
Total liabilities	<u>2,353,661</u>
 NET ASSETS	
Invested in capital assets, net of related debt	(51,107)
Unrestricted	<u>1,137,259</u>
Total net assets	<u>\$ 1,086,152</u>

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 721,741	\$ -	\$ 128,394	\$ (593,347)
Supporting services	416,496	9,598	4,082	(402,816)
Payments to other public schools	12,742	-	-	(12,742)
Food services	33,685	9,256	4,293	(20,136)
Athletics	13,803	-	-	(13,803)
Interest on long-term debt	98,153	-	-	(98,153)
Depreciation - unallocated	54,229	-	-	(54,229)
Total governmental activities	\$ 1,350,849	\$ 18,854	\$ 136,769	(1,195,226)
General revenues				
Property taxes - operations				1,065,381
Property taxes - debt service				202,060
State aid				128,967
Unrestricted investment earnings				31,260
Total general revenues				1,427,668
Change in net assets				232,442
Net assets, beginning of year				853,710
Net assets, end of year				\$ 1,086,152

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2005

	General	1999 School Building and Site Construction Debt Service Fund	Non- Major Funds	Total Governmental Fund
ASSETS				
Cash and cash equivalents	\$ 1,141,012	\$ 62,533	\$ 1,623	\$ 1,205,168
Accounts receivable	3,282	-	2,596	5,878
Due from other funds	1,961	-	-	1,961
Due from other governmental units	24,874	-		24,874
Total assets	\$ 1,171,129	\$ 62,533	\$ 4,219	\$ 1,237,881
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 4,508	\$ -	\$ -	\$ 4,508
Salaries payable	44,239	-	-	44,239
Due to other funds	-	-	1,961	1,961
Deferred revenue	5,225	-	-	5,225
Total liabilities	53,972	-	1,961	55,933
Fund balances				
Reserved				
Debt service	-	62,533	-	62,533
Capital projects	49,584	-	-	49,584
Unreserved				
Undesignated Special Revenue Funds	-	-	2,258	2,258
Undesignated General Fund	1,067,573	-	-	1,067,573
Total fund balances	1,117,157	62,533	2,258	1,181,948
Total liabilities and fund balances	\$ 1,171,129	\$ 62,533	\$ 4,219	\$ 1,237,881

Continued...

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2005

Reconciliation of fund balance on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets

Fund balances - total governmental funds	\$ 1,181,948
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not therefore reported in the funds

Add	- capital assets	2,851,720
Deduct	- accumulated depreciation	(647,827)

Certain liabilities, such as bonds payable, are not due and payable in the current period and are not reported in the funds

Deduct	- bonds payable	(2,255,000)
	- early retirement incentive	(28,219)
	- accrued interest on bonds payable	(16,470)

Net assets of governmental activities	<u>\$ 1,086,152</u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	General	1999 School Building and Site Construction Debt Service Fund	Non- Major Funds	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 1,065,381	\$ 202,060	\$ -	\$ 1,267,441
Charges for services	-	-	9,256	9,256
Interest income	28,876	2,203	181	31,260
Other income	13,680	-	-	13,680
State sources	127,034	-	1,933	128,967
Federal sources	128,394	-	4,293	132,687
Total revenues	1,363,365	204,263	15,663	1,583,291
Expenditures				
Instruction	692,259	-	-	692,259
Supporting services	415,296	-	-	415,296
Payments to other public schools	12,742	-	-	12,742
Food services	-	-	32,811	32,811
Athletics	-	-	13,803	13,803
Debt service	-	-	-	-
Principal	-	105,000	-	105,000
Interest	-	98,820	-	98,820
Total expenditures	1,120,297	203,820	46,614	1,370,731
Revenues over (under) expenditures	243,068	443	(30,951)	212,560
Other financing sources (uses)				
Transfers in	-	-	30,951	30,951
Transfers out	(30,951)	-	-	(30,951)
Total other financing sources (uses)	(30,951)	-	30,951	-
Net change in fund balances	212,117	443	-	212,560
Fund balances, beginning of year	905,040	62,090	2,258	969,388
Fund balances, end of year	\$ 1,117,157	\$ 62,533	\$ 2,258	\$ 1,181,948

Continued...

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities

Net change in fund balances - total governmental funds	\$	212,560
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Amounts reported for *governmental activities* in the statement of activities is different because

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct	- depreciation expense	(57,566)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add	- principal payments on long-term liabilities	105,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct	- increase in accrual for early retirement incentive	(28,219)
Add	- decrease in accrued interest payable on bonds	667

Change in net assets of governmental activities	\$	<u>232,442</u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Budget			Actual to Amended Budget Variance - Positive (Negative)
	Original	Amended	Actual	
Revenues				
Local sources	\$ 1,104,238	\$ 1,104,238	\$ 1,107,937	\$ 3,699
State sources	30,000	114,000	127,034	13,034
Federal sources	47,500	47,500	128,394	80,894
Total revenues	1,181,738	1,265,738	1,363,365	97,627
Expenditures				
Education				
Instruction	747,415	708,796	692,259	16,537
Supporting services	414,800	448,351	415,296	33,055
Payments to other public schools	-	22,000	12,742	9,258
Total expenditures	1,162,215	1,179,147	1,120,297	58,850
Revenues over (under) expenditures	19,523	86,591	243,068	156,477
Other financing uses				
Transfers out	(47,700)	(35,685)	(30,951)	4,734
Net change in fund balance	(28,177)	50,906	212,117	161,211
Fund balance, beginning of year	905,040	905,040	905,040	-
Fund balance, end of year	\$ 876,863	\$ 955,946	\$ 1,117,157	\$ 161,211

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash	\$ 14,439	\$ 29,237
Investments	107,076	-
	<hr/>	<hr/>
Total assets	121,515	\$ 29,237
	<hr/>	<hr/>
Liabilities		
Due to student groups	-	\$ 29,237
	<hr/>	<hr/>
Net assets, restricted for scholarships	\$ 121,515	
	<hr/>	

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

Additions	
Contributions	\$ 1,255
Investment earnings	<u>3,679</u>
Total additions	4,934
Deductions	
Scholarships	<u>5,500</u>
Change in net assets	(566)
Net assets, beginning of year	<u>122,081</u>
Net assets, end of year	<u>\$ 121,515</u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Mackinac Island Public School (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the *General Fund* as a major governmental fund. The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The major *1999 School Building and Site Construction Debt Service Fund* accounts for the principal and interest payments on the bonds used to finance the 1999 construction project in the District.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the food service and athletic programs sponsored by the District.

The *Fiduciary Funds* account for assets held by the District in a trustee capacity or an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the District-wide financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

The *Private Purpose Trust Funds* are accounted for using the accrual method of accounting. Private Purpose Trust Funds account for assets whereby both the principal and interest may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. The Agency Fund is accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds in an agency capacity (primarily student activities).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the District-wide financial statements.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2005.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

3. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-20

4. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. *Termination benefits*

Early Retirement Incentive

Occasionally, the District offers special incentives to employees during a brief period to encourage early retirement. All early retirement incentives are accrued when incurred in the District-wide statements.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

6. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end.

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Cash and cash equivalents	\$ 1,205,168
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Statement of Fiduciary Net Assets

Private Purpose Trust Funds	
Cash and cash equivalents	14,439
Investments	107,076
Agency Fund	
Cash and cash equivalents	<u>29,237</u>

Total Statement of Fiduciary Net Assets	<u>150,752</u>
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Total cash and cash equivalents and investments	<u>\$ 1,355,920</u>
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MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

All of the above balances are considered to be deposits for disclosure purposes.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial risk. As of the year ended June 30, 2005, \$1,184,151 of the District's bank balance of \$1,384,151 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's policy allows all of the above types of investments.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

B. Receivables

Receivables are comprised of the following:

Accounts receivable	\$ 5,878
Due from other governmental units	<u>24,874</u>
Total receivables	<u>\$ 30,752</u>

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
Capital assets being depreciated				
Buildings and improvements	\$ 2,697,787	\$ -	\$ -	\$ 2,697,787
Furniture and equipment	<u>168,921</u>	<u>-</u>	<u>(14,988)</u>	<u>153,933</u>
Subtotal	<u>2,866,708</u>	<u>-</u>	<u>(14,988)</u>	<u>2,851,720</u>
Accumulated depreciation				
Buildings and improvements	(476,510)	(54,229)	-	(530,739)
Equipment	<u>(128,739)</u>	<u>(3,337)</u>	<u>14,988</u>	<u>(117,088)</u>
Total accumulated depreciation	<u>(605,249)</u>	<u>(57,566)</u>	<u>14,988</u>	<u>(647,827)</u>
Governmental activities capital assets, net	<u>\$ 2,261,459</u>	<u>\$ (57,566)</u>	<u>\$ -</u>	<u>\$ 2,203,893</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Instructional services	\$ 1,263
Support services	1,200
Food services	874
Depreciation – unallocated	<u>54,229</u>
Total depreciation expense – governmental activities	<u>\$ 57,566</u>

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

D. Payables

Payables are comprised of the following:

Accounts payable	\$ 4,268
Interest payable	16,470
Salaries payable	<u>44,479</u>
Total payables	<u>\$ 65,217</u>

E. Interfund receivables, payables and transfers

The following balances represent individual fund interfund receivables and payables at June 30, 2005:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Due To/From		
General fund	\$ 1,961	\$ -
Nonmajor fund		
Food service fund	<u>-</u>	<u>1,961</u>
Total	<u>\$ 1,961</u>	<u>\$ 1,961</u>

The District reports interfund balances between certain funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of transfers from General Fund to the Nonmajor Food Service and Athletics Funds in the amount of \$17,148 and \$13,803, respectively.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2005, the District transferred funds to subsidize the food service and athletics programs.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

F. Long-Term Debt

Long-term debt of the District consists of the following:

	Amount Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Bonds payable					
General obligation debt	\$2,360,000	\$ -	\$ (105,000)	\$2,255,000	\$ 110,000
Other liabilities					
Early retirement incentive	-	28,219	-	28,219	7,055
Total governmental activities long-term liabilities	<u>\$2,360,000</u>	<u>\$ 28,219</u>	<u>\$ (105,000)</u>	<u>\$2,283,219</u>	<u>\$ 117,055</u>

Long-term liabilities at June 30, 2005 are as follows:

Bonds payable

General Obligation Bonds

1999 Building and Construction Bonds, due through 2019 in annual installments ranging from \$105,000 to \$205,000 with interest rates ranging from 4.00% to 4.35%.

\$2,255,000

Other liabilities

28,219

Total long-term liabilities

\$2,283,219

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Bond debt service requirements

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 110,000	\$ 94,620	\$ 204,620
2007	115,000	90,220	205,220
2008	125,000	85,620	210,620
2009	130,000	80,620	210,620
2010	140,000	75,420	215,420
2011-2015	825,000	284,392	1,109,392
2016-2020	<u>810,000</u>	<u>88,742</u>	<u>898,742</u>
Total	<u>\$ 2,255,000</u>	<u>\$ 799,634</u>	<u>\$ 3,054,634</u>

Interest expense was \$98,820 for the year ended June 30, 2005.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1, each year, based on the previous years assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$86,913, \$88,103, and \$79,321, respectively, equal to the required contributions for each year.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Other Post-employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the District. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2005.

The District is a reimbursing employer to the Michigan Employment Security Commission and as such is responsible to pay the Commission for all benefits paid and charged to the District. As of June 30, 2005 appropriate liabilities have been recorded for all claims paid by the Commission which have been submitted to the District. However, no provision has been made for future payments that might result from claims unprocessed or unfiled.

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COMBINING FUND STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Athletics</u>	
ASSETS			
Cash and cash equivalents	\$ 1,623	\$ -	\$ 1,623
Accounts receivable	2,596	-	2,596
Total assets	\$ 4,219	\$ -	\$ 4,219
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 1,961	\$ -	\$ 1,961
Fund balances			
Unreserved, undesignated	2,258	-	2,258
Total fund balances	2,258	-	2,258
Total liabilities and fund balances	\$ 4,219	\$ -	\$ 4,219

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	
Revenues			
Local sources			
Charges for services	\$ 9,256	\$ -	\$ 9,256
Interest income	181	-	181
State sources	1,933	-	1,933
Federal sources	4,293	-	4,293
Total revenues	15,663	-	15,663
Expenditures			
Food services	32,811	-	32,811
Athletics	-	13,803	13,803
Total expenditures	32,811	13,803	46,614
Revenues over (under) expenditures	(17,148)	(13,803)	(30,951)
Other financing sources			
Transfers in	17,148	13,803	30,951
Changes in fund balances	-	-	-
Fund balances, beginning of year	2,258	-	2,258
Fund balances, end of year	\$ 2,258	\$ -	\$ 2,258

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GENERAL FUND

JUNE 30, 2005

ASSETS	
Cash and cash equivalents	\$ 1,141,012
Accounts receivable	3,282
Due from other funds	1,961
Due from other governmental units	<u>24,874</u>
Total assets	<u>\$ 1,171,129</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 4,508
Salaries payable	44,239
Deferred revenue	<u>5,225</u>
Total liabilities	<u>53,972</u>
Fund balance	
Reserved for capital improvements	49,584
Unreserved, undesignated	<u>1,067,573</u>
Total fund balance	<u>1,117,157</u>
Total liabilities and fund balance	<u>\$ 1,171,129</u>

MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF REVENUES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

Revenues**Local sources**

Property taxes	\$ 1,065,381
Interest	28,876
Other local revenue	<u>13,680</u>

Total local sources **1,107,937**

State sources **127,034**

Federal sources **128,394**

Total revenues **\$ 1,363,365**

MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

Expenditures

Instruction

Basic programs

Elementary

Salaries	\$ 216,277
Employee benefits	97,056
Purchased services	9,497
Supplies and materials	18,027

Total elementary	340,857
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Secondary

Salaries	160,447
Employee benefits	109,301
Purchased services	6,077
Supplies and materials	4,387

Total secondary	280,212
------------------------	----------------

Total basic programs	621,069
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Added needs

Special education

Salaries	24,362
Employee benefits	12,409
Purchased services	12,389
Supplies and materials	22,030

Total special education	71,190
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Total instruction	692,259
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Continued...

MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

Supporting services

Instructional staff

Library

Salaries	\$ 7,131
Employee benefits	1,574
Purchased services	194
Supplies and materials	1,138
Capital outlay	40,170

Total library	50,207
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Academic student assessment

Supplies and materials	881
------------------------	-----

Total instructional staff	51,088
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General administration

Board of education

Salaries	2,910
Purchased services	20,362

Total board of education	23,272
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Executive administration

Salaries	122,312
Purchased services	3,845
Employee benefits	50,294
Supplies and materials	4,352
Other	443

Total executive administration	181,246
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Total general administration	204,518
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Business

Fiscal services

Salaries	4,913
Purchased services	1,088
Supplies and materials	199

Total fiscal services	6,200
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Continued...

MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

Business services	
Supplies and materials	\$ 4,286
	<hr/>
Total business	10,486
	<hr/>
Operations and maintenance	
Salaries	38,180
Employee benefits	27,422
Purchased services	33,418
Supplies and materials	46,649
Capital outlay	3,535
	<hr/>
Total operations and maintenance	149,204
	<hr/>
Total supporting services	415,296
	<hr/>
Payments to other public schools	
ITV tuition costs	12,742
	<hr/>
Total expenditures	1,120,297
	<hr/>
Other financing uses	
Transfer out	30,951
	<hr/>
Total expenditures and other financing uses	\$ 1,151,248
	<hr/>
	Concluded

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF NET ASSETS PRIVATE PURPOSE TRUST FUNDS

JUNE 30, 2005

	Private Purpose Trusts		Total
	Stella King Scholarship Fund	John Franks Scholarship Fund	Private Purpose Trust Funds
Assets			
Cash and cash equivalents	\$ 2,353	\$ 12,086	\$ 14,439
Investments	1,000	106,076	107,076
Net assets, restricted for scholarships	\$ 3,353	\$ 118,162	\$ 121,515

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Private Purpose Trusts		Total Private Purpose Trust Funds
	Stella King Scholarship Fund	John Franks Scholarship Fund	
Additions			
Contributions	\$ 1,255	\$ -	\$ 1,255
Investment earnings	37	3,642	3,679
Total additions	1,292	3,642	4,934
Deductions			
Scholarship payments	500	5,000	5,500
Change in net assets	792	(1,358)	(566)
Net assets, beginning of year	2,561	119,520	122,081
Net assets, end of year	\$ 3,353	\$ 118,162	\$ 121,515

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Balances July 1, 2004	Receipts	Disbursements	Balances June 30, 2005
ASSETS				
Cash	\$ 28,688	\$ 84,964	\$ 84,415	\$ 29,237
LIABILITIES				
Due to student groups	\$ 28,688	\$ 84,964	\$ 84,415	\$ 29,237
The balances at June 30, 2005 consist of the following				
Due to student groups				
Class of 2004	\$ 45	\$ 232	\$ 277	\$ -
Class of 2005	3,756	6,048	9,498	306
Class of 2006	4,535	1,285	336	5,484
Class of 2007	487	298	-	785
Class of 2008	802	1,102	661	1,243
Class of 2009	147	2,538	436	2,249
Class of 2010	-	942	266	675
Project Close-up	1,130	5,379	5,782	727
Travel Club	2,746	2,507	1,776	3,477
Kindness Fund	397	13	20	390
Miscellaneous	170	47,766	47,773	163
Video Fund	-	840	332	508
Yearbook	2,220	2,551	4,688	83
Golf Scholarship	5,061	1,674	2,042	4,693
Sports Boosters	4,710	11,765	10,528	5,947
Arts Club	2,482	25	-	2,507
Total	\$ 28,688	\$ 84,964	\$ 84,415	\$ 29,237



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

August 16, 2005

Board of Education
Mackinac Island Public School
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Mackinac Island Public School*** (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated August 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts and disbursements and the recording of these transactions. The District recognizes this risk, but no change will be implemented because the costs would exceed the benefits.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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August 16, 2005

Superintendent and Members of
the Board of Education
Mackinac Island Public School
Mackinac Island, MI

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of ***Mackinac Island Public School*** for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during the above-mentioned engagement, we became aware of opportunities for strengthening controls and improving operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated August 16, 2005 on the financial statements of ***Mackinac Island Public School***.

We have already discussed these comments with the Superintendent and Bookkeeper, and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter.

Best wishes for a successful 2005-2006.

Encl.1

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2005

NO CHILD LEFT BEHIND – REQUIREMENT REMINDER

No Child Left Behind Act (NCLB Act) enacted on January 8, 2002, required that all paraprofessionals hired after January 8, 2002 must have (1) completed two years of study at an institution of higher education; (2) obtained an associate's (or higher) degree; or (3) met a rigorous standard of quality and be able to demonstrate, through a formal State or local academic assessment, knowledge of and the ability to assist in instructing reading, writing, and mathematics (or, as appropriate, reading readiness, writing readiness, and mathematics readiness). Paraprofessionals hired before January 8, 2002 and working in a program supported with Title I funds also must meet these requirements by January 8, 2006.

MICHIGAN FINANCE QUALIFYING STATEMENT

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury's website. This report is required to be filed with the department within 6 months from the end of your fiscal year.

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

Beginning with the fiscal year ended June 30, 2005, the District must submit their financial statements to the State of Michigan electronically. To do so, the financial statements must be created electronically in an Adobe Acrobat file. This file may also be forwarded to bond counsel for preparation of the SEC continuing disclosures. We will provide an electronic version of the financial statements for your use.

CONCLUSION

It has been a pleasure to provide audit services to *Mackinac Island Public School*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. The District's personnel are very conscientious and helpful.

We appreciate your business! Thank you.